



SG HISCOCK & COMPANY

SGH High Conviction Fund

30 June 2022

Investment objective	The Fund invests in a concentrated portfolio of Australian stocks that aims to offer long-term returns in excess of the S&P/ASX 300 Accumulation Index (after fees).		
Investments held	A portfolio of 15 to 30 stocks that are listed on the Australian Securities Exchange.		
Investment Manager	SG Hiscock & Company Limited	APIR	ETL0042AU
Commencement	28 October 2004	mFund Product Code	SHF01
Management costs¹	0.90% p.a.	Buy spread	+0.25%
Performance Fee²	15%	Sell spread	-0.25%
Minimum initial investment	\$20,000	Fund size	\$13.50 million

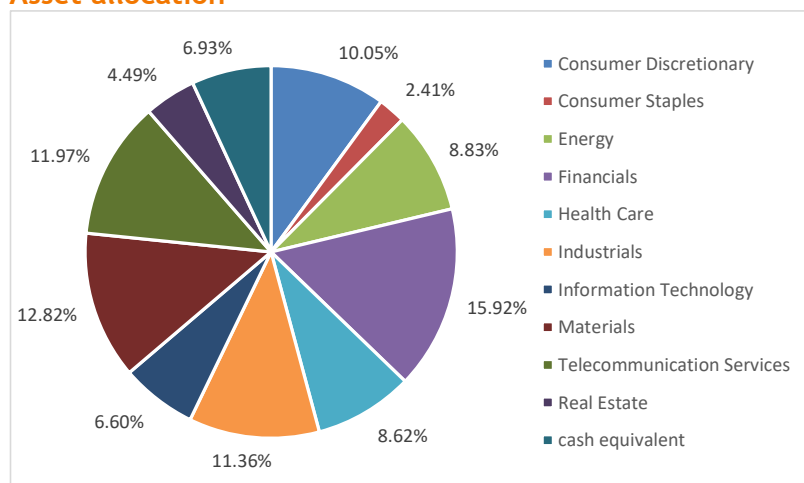
Unit Price	Application	Net Asset Value	Withdrawal
	\$ 1.5681	\$ 1.5642	\$ 1.5603

Performance ³	1 mth %	3 mths %	6 mths %	1 yr %	3 yrs % p.a.	5 yrs % p.a.	Inception % p.a.
Distribution Return	11.76	11.14	11.50	13.63	10.05	11.03	7.67
Growth Return	-19.20	-23.49	-21.03	-17.67	-4.84	-4.03	1.78
Total Net Return	-7.44	-12.35	-9.53	-4.04	5.21	7.00	9.45
S&P/ASX300 Accumulation Index	-8.97	-12.22	-10.39	-6.78	3.44	6.90	7.58
Total Net Return vs. the Index	1.53	-0.13	0.86	2.74	1.77	0.10	1.87

Past performance is not a reliable indicator of future performance.

Distribution Period	31-Dec-20	30-Jun-21	31-Dec-21	30-Jun-22
Distribution rate (cents per unit)	0.7331	10.8854	3.0211	19.8711

Asset allocation



Top 5 holdings

CSL Limited
National Australia Bank Limited
BHP Billiton Limited
Woodside Energy Group Ltd
Chorus Ltd

Top 5 holdings represent 34.52% of the total Fund.

- Includes estimated GST payable, after taking into account Reduced Input Tax Credits ("RITC").
- Effective 1 December 2018, a performance fee of 15% (net GST and an estimate of RITC) of any investment return above the fund's benchmark may also be payable as an expense of the fund, subject to a highwater mark
- Performance: Distribution Return is the return due to distributions paid by the Fund, Growth Return is the return due to changes in initial capital value of the Fund, Total Net Return is the Fund return after the deduction of ongoing fees and expenses and assumes the reinvestment of all distributions.



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Monthly Observations

Recent outperformance in Australian equity markets reversed against developed market in June. The S&P/ASX300 Accumulation Index finished the month down 8.9%. This saw the FY22 year return -6.8%, the third such negative return in the past decade. In the month, consumer staples were the only sector that posted a positive return (+0.23%), albeit marginal. The market remained consumed by concerns of higher interest rates, driven by a 50bp hike by the RBA in early June. Compounding this, consumer and business confidence is dropping around the world as the reality of inflation and higher living costs bites. As a forecasting machine, the market is looking ahead to the next phase of the cycle and potential deterioration in company earnings.

With US equities now in a bear market, having corrected by more than 20%, bad news is becoming good news. That is, rising recession risk may still need to be priced into earnings, but it's reflected in lower bond yields and valuations. Some predict the Fed may pause and even start to ease policy by the end of 2023, but for this to happen greater evidence that the structural drivers of inflation are abating is required. That said, the current reality is real yields are rising, which remain a headwind for equity markets and valuations. At the very least, it is safe to say that the neutral policy rate for central banks is now higher than it was pre-pandemic. The main reason is the shift in geopolitics and structural trade and energy and food prices, largely driven by the Russia-Ukraine conflict.

In the US, the Atlanta Fed model suggests a June GDP print of -2.1%, pointing to the US already being in technical recession (being two quarters of negative GDP growth). The strength of the labour market, which remains resilient despite the slowdown remains a key outlier. It is something we are watching closely as a barometer of whether a technical recession becomes something more serious.

Central banks face the vexed issue, to what extent they are prepared to damage the real economy to snuff out inflation? Over the last six weeks we have seen a capitulation in central bank messaging: The Fed Put (implicit central bank support of equity markets) is now a Fed call.

At the end of the day, monetary policy is far from a precise tool, and there is significant uncertainty around the impact on the real economy as rates rise, and how aggressive central banks will need to be. This has been reflected in the volatility in forward interest rate expectations. In mid-June, markets were pricing the official RBA cash rate to be 4.25% in early 2023, but by month end this had been revised to a peak of 3.5%.

In Australia, a more hawkish Reserve Bank has seen a rise in mortgage rates, with expectations now they will be around 200 basis points higher by the end of calendar 2022. It follows that as financial conditions tighten, and discretionary and business investment spending contracts forecast GDP growth will slow.

Given the level of household debt in Australia, we are particularly susceptible to a slowdown. Many will cite the high levels of household savings as a saving grace. However, the fact is the average level of household savings does not reflect the average Australian. The average is dragged up significantly by wealthier individuals. As such, mortgage stress is a real risk, and we would expect the RBA may pause the hiking cycle later this year to better understand the effect on the real economy.

From an overall context, we continue to see Australia as relatively well positioned from a global perspective. As a resource rich nation and exporter of both hard and soft commodities, Australia's economic growth stands to benefit versus most other developed countries, and particularly those heavily reliant on commodity and energy imports. Apart from the obvious GDP uplift Australia stands to benefit from, its geographic remoteness and political stability also make it an attractive partner to do business with, and also place in which to invest.

Portfolio positioning and performance

For the month the portfolio returned -7.44% outperforming the S&P/ASX300 Accumulation Index by 1.53%.

The top contributors during the month were Woodside Petroleum and Aristocrat Leisure. The main detractors were Northern Star, Cleanaway Waste and Seven group Holdings.

For more information visit www.sghiscock.com.au

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